



in a Time of Disruption

1. Every Business is a Technology Business
2. How to Prepare for Disruption
3. How to Prepare for the Inevitable?
4. What Steps Can I Take?

Ten years ago, Andreessen Horowitz proclaimed that “software is eating the world.” Since then, the world has witnessed the rise of the first trillion-dollar software companies: first Apple, followed by Microsoft, Amazon, and Google. Today, technology is woven into the fabric of every business in existence. While technology has opened the doors to massive markets and exponential efficiency, it has also paved the way for unprecedented threats of disruption.

Every Business is a Technology Business

Regardless of the industry, every business is now a technology business. For example, Invitation Homes, the largest owner of single-family rental homes, owes its success to proprietary software to optimize home maintenance schedules, improve energy efficiency, and better predict which neighborhoods to enter next. Domino’s Pizza’s digital-first approach to managing its supply chain and deliveries has kept it a step ahead of competitors while also preventing third-party delivery apps from disrupting its relationship with its customer.

How to Prepare for Disruption

1. Be an Early Adopter

Experimenting with emerging ideas and embracing a culture of innovation will help see around the corner to where the world is going. Proctor & Gamble was among the first to experiment with advertising on TikTok, allowing them to generate over 14 billion views at a quarter of the cost of Facebook ad impressions.

2. If You Can’t Beat Them, Join Them

Honeywell invented the world’s fastest quantum computer and allowed for accessibility via Microsoft’s cloud, resulting in new revenue channels (customers now include DHL, Merck, & Accenture) while providing advanced analytics for Honeywell’s own business lines.

3. Disrupt Yourself

Be willing to incur short-term pain for long-term gain – cannibalizing existing business lines today can create opportunities tomorrow. Toys-R-Us was unwilling to sell online because it would reduce in-store sales, allowing Amazon to capture the market.

4. Build a Brand

High-quality service and personal relationships can't be replaced. Build a relationship with your customers and focus on providing excellent customer service to prevent customers from leaving to a new competitor. For example, Costco has the highest customer perception score of any retailer, preventing it from being swept aside in the wake of Amazon (and resulting in its stock doubling the performance of the S&P 500 Index over the last 10 years).

How to prepare for the inevitable?

It's important to act today to be able to act quickly in the future. Taking steps to prepare for a future sale will pay dividends not just in the form of tax savings but also in being able to take advantage of opportunities that may come your way, whether that be an unforeseen buyout offer, an acquisition opportunity, or capitalizing on prime market conditions to sell your business.

What steps can I take today if I am planning on selling a business at some point in the future?

1. First, Assemble a Team

Pre-sale planning requires coordinating estate planning attorneys, accountants, business advisors, family members, trust advisors, and wealth managers. Whittier Trust acts as the quarterback for our client, seamlessly integrating your tax, estate and business advisors with our high-touch investment

management, family office, client advisory, and real estate services to maximize the value of the business and protect it for the next generation.

Evaluate All the Options

There are many techniques that may be employed to minimize capital gain taxes and maximize asset protection, including:

- **Qualified Small Business Stock (QSBS) – Section 1202**
 - Performed correctly, QSBS transactions can help exclude the greater of \$10 million or 10 times the shareholders' adjusted basis in gains
- **Grantor Retained Annuity Trust (GRAT)**
 - While GRATs can be funded with any type of asset, the strategy works best when funded with securities that are expected to appreciate in a short period of time – such as stock in a private company that might be sold during the GRAT term
 - Today's historically low-interest rates make GRATs especially effective
- **ESOP buyouts**
 - ESOPs may allow sellers to defer capital gains
 - The selling company may receive a tax deduction equal to the purchase price through contributions to a qualified retirement plan
 - Proceeds from the sale must be invested in "qualified replacement securities" by the seller within a set period of time
- **Discounted Gifts/Sales**
 - Transfers of assets where the interest being

transferred lacks control and the ability to market and sell the interest may result in a valuation discount of 30-40%

- Gifting discounted shares allows you to reduce your estate tax liability by leveraging your lifetime gift tax exclusion

• **Charitable Planning Options**

- Donations of appreciated assets can eliminate capital gains and transfer assets out of your taxable estate
- Charitable deductions are calculated at Fair Market Value (except to private foundations, which are calculated at cost)
- Double Benefit: Charity doesn't pay taxes when sold in the charitable entity resulting in increased benefit, and you get a tax deduction for the donation
- Consider donating directly to a donor-advised fund (DAF) for additional flexibility
- Charitable Remainder Trusts provide an income stream for the grantor and a charitable deduction while benefiting a charitable cause

• **Consider the Nevada advantage**

- Unlike most states, Nevada does not have state income or capital gains taxes, resulting in a

significant compounding effect on the growth of wealth

- Nevada allows interests to be held in trust for up to 365 years, shielding future beneficiaries from tax burdens
- Nevada law includes provisions for directed trusts, allowing an individual to place responsibility of closely-held business in the hands of a family member or business partner, while giving responsibility of the broader investment portfolio to a trustee
- Performed correctly, Nevada is a premier state for asset protection trusts, providing protection to the seller of a business

Summary: We are living in a time of disruption. A business climate where companies can be unprofitable for years before dominating an industry. From software to logistics to rental homes, it is more important than ever to consider and prepare for the risks of disruption to family businesses. Protecting the family business can come in the form of reinventing the business, forming asset protection entities, or effectively planning for a sale.

WHITTIER TRUST COMPANY

South Pasadena 1600 Huntington Dr., South Pasadena, CA 91030 | 626.441.5111
 Newport Beach 4695 MacArthur Ct., Ste 1500, Newport Beach, CA 92660 | 949.216.2200
 San Francisco 505 Montgomery St., Ste 1200, San Francisco, CA 94111 | 415.283.1850

THE WHITTIER TRUST COMPANY OF NEVADA, INC.

Reno 100 W. Liberty St., Ste 890, Reno, NV 89501 | 775.686.5400
 Seattle 520 Pike St., Ste 1415, Seattle, WA 98101 | 206.332.0836
 Portland 111 S.W. Fifth Ave., Ste 3150, Portland, OR 97204 | 503.444.3428

Whittier Trust Company and The Whittier Trust Company of Nevada, Inc. are state-chartered trust companies, which are wholly owned by Whittier Holdings, Inc., a closely held holding company. All of said companies are referred to herein, individually and collectively, as "Whittier". This document is provided for informational purposes only and is not intended, and should not be construed, as investment, tax or legal advice. Please consult your own investment, legal and/or tax advisors in connection with financial decisions and before engaging in any financial transactions. This document does not purport to be a complete statement of approaches, which may vary due to individual factors and circumstances. Although the information provided is carefully reviewed, Whittier makes no representations or warranties regarding the information provided and cannot be held responsible for any direct or incidental loss or damage resulting from applying any of the information provided. Past performance is no guarantee of future results and no investment or financial planning strategy can guarantee profit or protection against losses. These materials may not be reproduced or distributed without Whittier's prior written consent. For additional information about Whittier, please visit our website at www.whittiertrust.com.